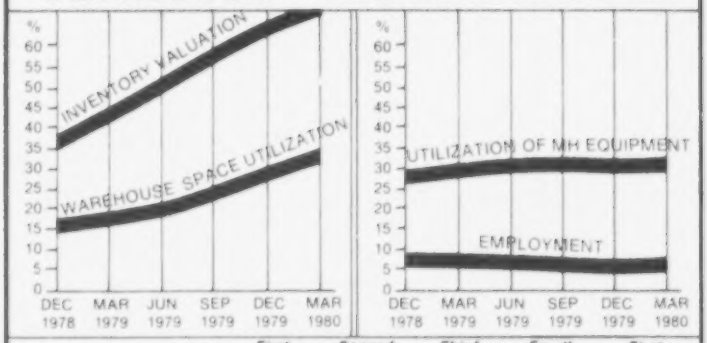
DISTRIBUTION PERFORMANCE INDEX



CATEGORY	First Quarter '79	Second Quarter '79	Third Quarter '79	Fourth Quarter '79	First Quarter '80
Inventory Valuation	6.1%	7.1%	8.2%	6.3%	5.2%
Warehouse Space Utilization	8%	2.5%	3.1%	4.2%	29.1%
Exp. and Utilization of Matls. Handling Equipment	1%	0%	(.5%)	(.4%)	30.9%
Employment	(.3%)	(.4%)	(.3%)	(.4%)	71.3%

More of the same is an apt description for the economy in the last quarter of 1979 and the first quarter in 1980.

The recession will continue through both quarters and run well into the second quarter of the coming year. Consumer demand is expected to decline dramatically over the same period.

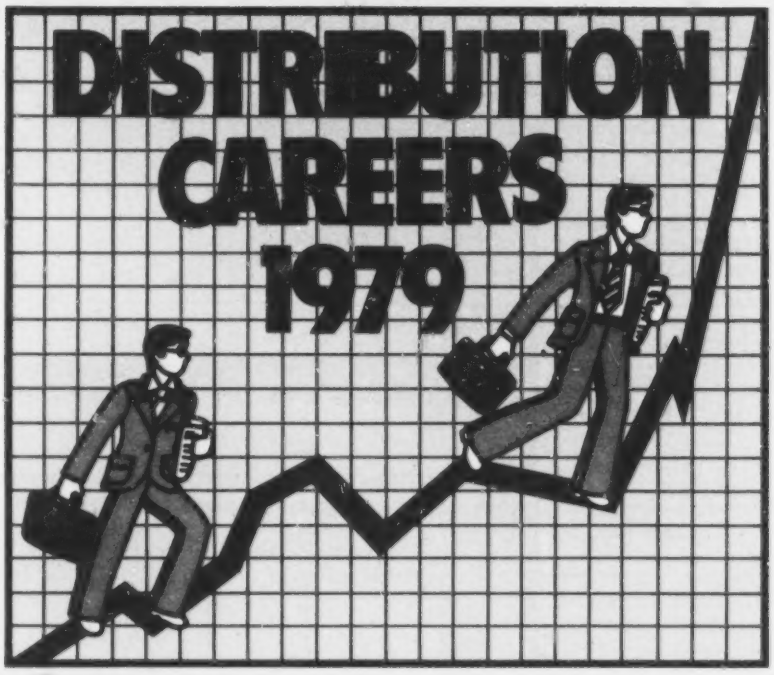
Even though inflation is expected to moderate, 1979 will still go into the record books as the most inflationary year since 1946. It's expected that the inflation rate for all of 1979 will be pegged at 14.7 percent.

The Distribution Index reflects the slowdown in economic activity and the rise in inflation. Shippers are forecasting a rise of 6.5 percent in inventory valuation for the first quarter of 1980. While this is only a modest increase over fourth-quarter figures, the trend is clearly upward and will not moderate until the middle of next year.

Inventories are climbing as demand slackens. This is reflected in the forecast of a 4.4 percent increase in warehouse space utilization for the first quarter of 1980. Companies are in a better position with regard to the management of their inventories during its recession as compared to the past, but the levels of space used are still uncomfortably high.

Companies are becoming conservative with regard to the purchase of new materials handling equipment. As warehouse activity begins to fall off, companies are cutting back in equipment expenditures. As one materials manager stated, "I fix up the old equipment where possible. We have to control our costs in this period of uncertainty."

The trend is down in the employment area. Shippers are forecasting a slight decline of 0.3 percent in employment during the first part of 1930. Employment during this recession is expected to be only modestly affected when compared with past recessionary declines. One shipper gives an indication as to why this is so. "My firm tries to keep people on as long as possible," he explains. "Laying someone off is a painful thing to do."



The movers and shakers who run the distribution side of American business are being moved and shaken, themselves. Inflation, fuel costs, recession, increased business and government red tape—all are shaping the distribution careerist's work and life style.

Distribution management is becoming more and more management and less and less distribution.

That is the trend which has shown itself during the eight years in which we have conducted our survey of career patterns in distribution. The trend continues, as evidenced in the 1979 survey.

The chief distribution executive has moved from an activity-based, functionally constrained manager to a corporate executive with substantial interface responsibilities outside the distribution area.

Along with this change has come an external orientation and a concern with the impact of external factors such as energy, technology, and productivity and their role in shaping the future of the firm's distribution environment.

The external pressures of inflation, energy and high interest rates have focused senior management's attention on both the cost and performance of the distribution function. The function has emerged in many firms as an important element of corporate strategy.

This year's survey sought answers to four major questions. First, how is the distribution function organized? Second, what are the distribution executive's primary responsibilities? Third, what is the demographic profile of the distribution executive? Fourth, how does the distribution executive perceive the future?

Data used in this survey come from a three-page questionnaire which was mailed to 416 members of the National Council of Physical Distribution Management during the summer of 1979.

The 131 questionnaires (126 usable) which were returned represent a response rate of 32 percent. While this is down from the 38 percent response to the 1978 survey, it is still adequate in terms of level and representation.

The tables and text on the following pages reveal the continued trend among distribution managers toward greater emphasis on distribution strategies and less emphasis on the nuts and bolts of distribution tactics.

Continued

By DR. BERNARD J. LA LONDE,
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WHO CONTROLS DISTRIBUTION?

Since the early 1970s, there has been a shift away from positioning physical distribution as a staff function.

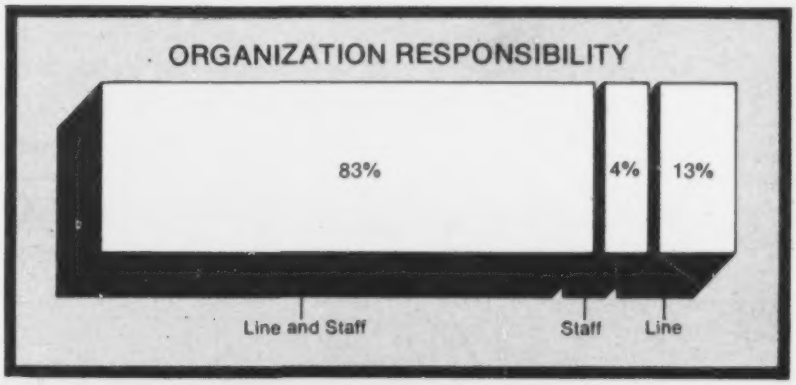
This trend seems to be stabilizing, with a large majority of firms opting for combined staff-line or staff-divisional types of organization.

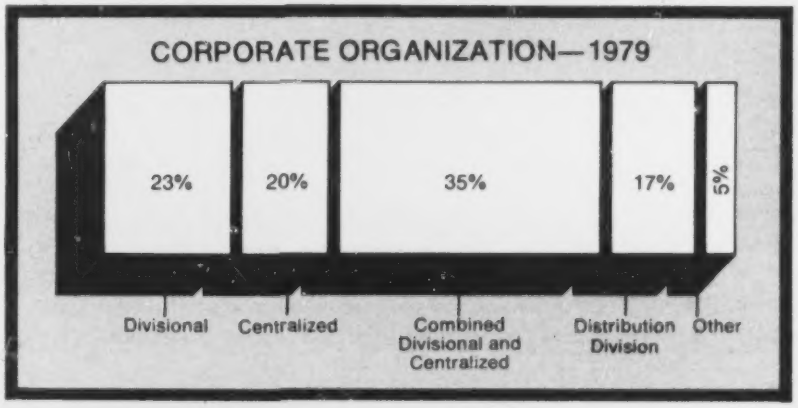
This stabilizing trend is evident in the responses to our survey. Approximately 80 percent of the respondents report both line and staff responsibility.

On the specific positioning of the distribution function, 35 percent of the respondents report a combined centralized and divisional organization.

Of the remaining respondents, 20 percent report either a divisional organization, a centralized organization or a separate distribution division.

While there have been some small variances reported in the data reported over the last three years, this organizational trend seems to be stabilizing at the levels shown here.





DISTRIBUTION EXECUTIVES' SALARIES

Some distribution executives are making more money this year, compared with 1978.

However, the increases aren't equally spread through management ranks, and considerable numbers of executives aren't keeping up with inflation.

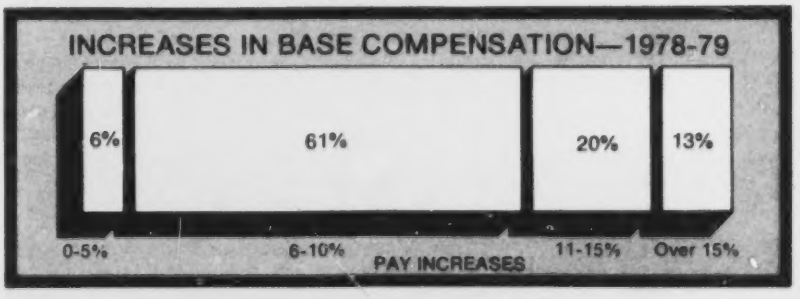
Average compensation levels of the distribution executive increased in 1979. But the rate of increase slowed for the distribution manager and director.

In the vice presidential spot, the salary increase again exceeded the rate of inflation by a significant margin.

Economists expect the inflation rate for all of 1979 to run at more than 14 percent. If that's they case, then 87 percent of those surveyed will make the same or less—in real dollars—in 1979 as they did in 1978.

AVERAGE COMPENSATION—1979

	Manager	Director	Vice President
Top quarter	$51,125	$62,700	$83,750
Second quarter	$39,500	$48,800	$63,800
Third quarter	$32,375	$39,500	$57,200
Lowest quarter	$25,500	$33,600	$47,500
Average	$37,125	$46,100	$62,800



WHAT TAKES UP THE EXECUTIVE'S TIME?

The distribution executive is spending less time in the purely distribution area and more time in general administration.

The primary trends in specific responsibilities of the distribution executives have indicated a gradual shift from a narrow traffic and warehousing responsibility to a broader range of responsibility both within and outside the distribution area.

Our survey finds that managers spend some 28 percent of their time outside the distribution function. Directors spend about 33 percent of their time outside the distribution function, and vice presidents spend 40 percent of their time outside the function.

Almost two-thirds of the time spent outside the function goes to interacting with either the marketing or production area.

Managers, directors and vice presidents spend 20 to 25 percent of their total time in the transportation and warehousing areas, according to those surveyed.

We also found that the amount of time spent at all levels in "general administration" has gradually risen over the eight years in which we have conducted our surveys.

Distribution executives are spending more time on matters of procurement, product planning and sales forecasting.

For example, in all of our surveys we asked respondents in which areas they had *no* responsibility.

In 1973, 54 percent had nothing to do with procurement. In 1976, 42 percent had no involvement with procurement. In 1979, the percentage has shrunken further: Only 36 percent have nothing to do with procurement.

Similar trends were noted in product planning and sales forecasting.

In 1973, some 71 percent of those surveyed had no hand in product planning. The figure dropped to 59 percent in 1976 and 54 percent in 1979.

In 1973, some 89 percent of those surveyed did not get involved in sales forecasting. By 1976, 58 percent had no such involvement. By 1979, 51 percent had no part in sales forecasting.

Clearly, distribution executives who had once been removed from procurement, product planning and sales forecasting are gradually moving into these areas.

TIME EXPENDITURES ON DISTRIBUTION AND NON-DISTRIBUTION RELATED ACTIVITIES

DIRECTORS—1979

DISTRIBUTION (67%)	
Traffic	12%
Inventory	7%
Warehousing	10%
Other processing	6%
General administration	12%
Other	20%

NON-DISTRIBUTION (33%)	
Marketing	9%
Production	10%
Data processing	5%
Finance	6%
Other	3%

VICE PRESIDENTS—1979

DISTRIBUTION (60%)	
Traffic	8%
Warehousing	8%
Inventory	4%
Purchasing	4%
Other processing	5%
General administration	18%
Other	13%

NON-DISTRIBUTION (40%)	
Marketing	17%
Production	8%
Data processing	9%
Finance	4%
Other	2%

MANAGERS—1979

DISTRIBUTION (72%)	
Traffic	14%
Warehousing	13%
Inventory	8%
Other processing	5%
Plant & warehouse	5%
International	4%
General administration	12%
Other	11%

NON-DISTRIBUTION (28%)	
Marketing	9%
Production	9%
Data processing	4%
Finance	4%
Other	2%

WHO IS THE DISTRIBUTION EXECUTIVE?

He is, on average, in his forties, is a college grad and has a degree in business administration.

That picture of the "average distribution exec" is not a very clear one, however. Though the bulk of those executives surveyed fit this pattern, there is farily wide variance in ages and educations among our respondents.

For a more detailed look at the profile of the distribution executive, please study the illustrations on this page.

Our findings suggest that the distribution executive is attaining executive status at an earlier age than his functional counterparts (except for sales and marketing).

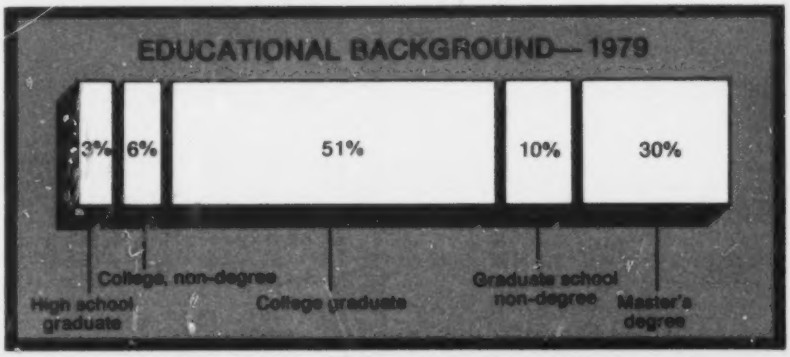
The emphasis on college educated distribution executives continues. Some 97 percent of this year's respondents have at least some college experience. And 91 percent had a least one college degree.

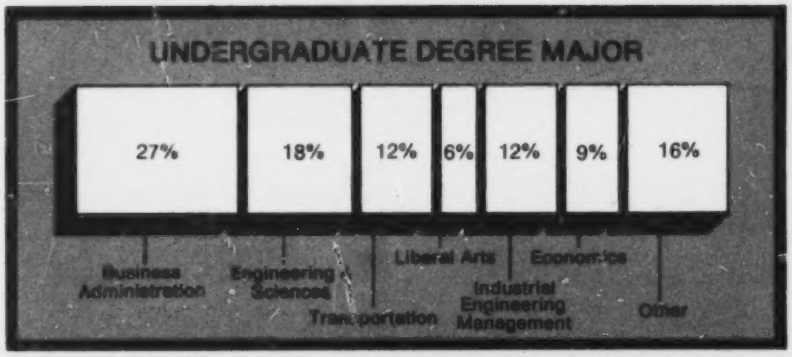
Some 40 percent of the respondents have done post-graduate work, and 30 percent have a master's degree or higher.

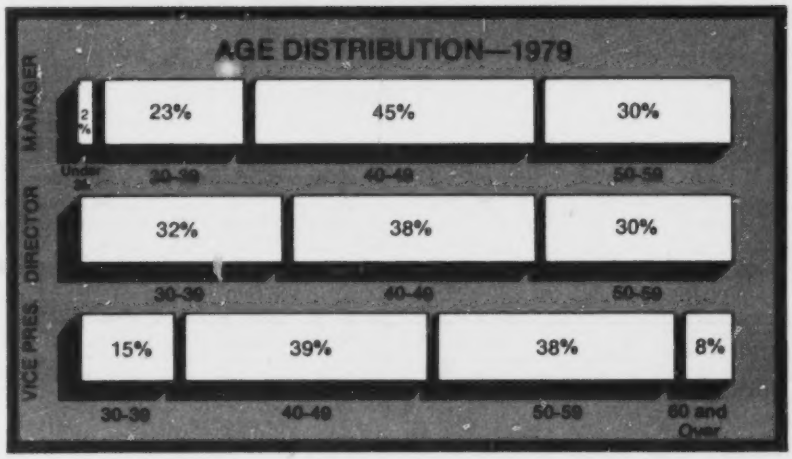
Business administration, engineering and science backgrounds continue to dominate the undergraduate preparations of the executives in distribution capacities.

Our findings also indicate that the distribution executive has attained a level of education which matches or exceeds that of his functional counterparts in the firm.

In 1979, as in previous years, it is unlikely that the current distribution executive either was formally educated in physical distribution or began his or her career in the distribution area.







WHAT'S THE DISTRIBUTION OUTLOOK?

One way to learn what today's distribution executive thinks will be the challenges of tomorrow is to ask him what he would study if he could go back to school.

This year, as in past years, we asked this question: "If you were offered an opportunity to return to school in the near future for three months, and could take a custom-designed curriculum of your choosing, what kinds of things would you study?"

Again, as in past years, almost one-third of the respondents indicated a first preference for the financial area. The remaining categories were similar to the 1978 survey, except that cost accounting and inventory moved up in preference for additional study.

This year, a new section was added to the annual survey. Since inflation has plagued the distribution budgeting process, it was decided to survey the distribution executives on their forecast of behavior for significant distribution cost components.

Note that every key budget item was forecast to increase in cost during 1980 at rates higher than the 1979 rate.

This is consistent with the findings that every major industry group but one expects the same trend in costs. The exception is the electronics industry, which expects a downturn in the rate of increase for distribution costs.

We also asked respondents to "identify the two major factors which will, in your judgement, influence the growth and development of the corporate distribution function during the next decade."

The most significant change from previous years' responses was the new importance of the "Economy," the "Energy Availability/Cost" and the "Regulation" factors. This suggests that, increasingly, the concerns of the distribution executive are for those factors which are external to the firm. ■

EDUCATIONAL NEEDS—1979

Area	First Choice	Second Choice
Finance	31%	18%
Data Processing	7%	9%
Distribution Planning	9%	8%
Marketing	4%	13%
Cost Accounting	9%	4%
Inventory Control	8%	0%

FACTORS SHAPING THE FUTURE DISTRIBUTION ENVIRONMENT

Factor	Most Important	2nd Most Important
Distribution Costs	36%	19%
Economy	12%	8%
Energy Availability/Cost	11%	13%
Top Management's View of Physical Distribution	9%	9%
Customer Service	8%	13%
Regulation	7%	9%

FORECAST INCREASES IN TOTAL DISTRIBUTION COSTS BY INDUSTRY

Industry	% Increase—1978 to 1979	1979–1980
Metals & Metal Working	12.0%	13.0%
Sporting Goods	11.3%	15.9%
Paper	11.0%	11.0%
Electronics	10.6%	10.1%
Food	9.8%	10.8%
Pharmaceuticals	9.6%	12.0%
Machine Tools & Machinery	8.5%	9.5%
Chemicals & Plastics	8.1%	9.3%

FORECAST INCREASES IN KEY ELEMENTS OF DISTRIBUTION BUDGET

Key Budget Element	% Increase—1978 to 1979	1979 to 1980
Motor Carrier—LTL	12.4%	14.3%
Motor Carrier—TL	10.1%	11.4%
Private Carriage	8.4%	10.0%
Contract Carriage	8.5%	10.8%
Railroad Rates—CL	9.1%	10.3%
Railroad Rates—Piggyback	9.8%	10.6%
Warehousing Costs—Corporate	8.5%	9.8%
Warehousing Costs—Public Warehouse	8.6%	9.7%

NOTE

ONLY THE FOLLOWING PAGES OF THIS PUBLICATION

HAVE BEEN FILMED

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